UN 47
June 21 '67

Distr.
LIMITED

TD/B/C.1/SC.1/L.1/Add.1
24 May 1967

ENGLISH
Original: ENGLISH/FRENCH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Commodities
Second session
First Sessional Sub-Committee
Geneva, 9 May 1967
Agenda item 4

MAIN ELEMENTS OF COMMODITY POLICY INCLUDING INTERNATIONAL COMMODITY ARRANGEMENTS AND OTHER TECHNIQUES OF COMMODITY MARKET STABILIZATION

(i) Operation and financing of buffer stocks

(ii) Role and financing of diversification programmes

(iii) Basic principles and guidelines for pricing policy designed to [maximize] receipts from exports of primary commodities[1/]

Draft report of the First Sessional Sub-Committee

Addendum

1/ The language of item 4 and its sub-items is taken textually from the draft provisional agenda for the second session of the Conference as adopted by the Trade and Development Board at its fourth session. No agreement was reached by the Board on the formulation contained in square brackets.

GE.67-8174

(ii) Role and financing of diversification programmes

14. The Committee had before it a document (TD/B/C.1/36) prepared jointly by the secretariats of UNCTAD and FAO. In its discussion of item 4 (ii) the Committee also considered the relevant passages in the report of the Advisory Committee to the Board and to the Committee on Commodities on its first session (TD/B/C.1/25, paras.30 et seq.). It was generally agreed that document TD/B/C.1/36 provided a useful summary of a complex subject which had only recently commanded the attention of the international institutions. It was stressed that diversification was an integral part of the general process of economic development. Nevertheless, as the primary sector constituted a major part of the economies of developing countries and earnings from sales of primary commodities accounted for the bulk of their export incomes, the role of diversification was closely related to commodity policy.

15. There was broad agreement on several issues relating to the role of diversification, and the wider implications of diversification in the strategy of economic development were extensively discussed. It was recognized that diversification should be examined not only on a commodity-by-commodity basis but also by country or group of countries as diversification programmes formed a part of economic development plans. As such, diversification had implications affecting policies relating to commodities, manufactures and the financing of development. The need existed for a review of the activities of international agencies in the field of diversification, and consequently close consultation and co-ordination should be maintained between the various Committees of UNCTAD, as well as between UNCTAD and other agencies such as FAO, UNIDO, study groups and commodity councils interested in the problems of diversification, with a view to a co-ordinated approach to the problems of diversification.

16. In the discussion on international co-operation in furtherance of diversification programmes, it was pointed out that primary responsibility in this field rested with the developing countries themselves. However, it was admitted that these efforts to achieve diversification should often be reinforced and supported by the developed countries acting in close co-operation with the developing countries, especially through bilateral and multilateral aid programmes, the provision of technical assistance, and an increased flow of private investment. In this connexion, the attempt by the IBRD to develop a system of multilateral investment guarantees was particularly important.

17. The importance of regional integration in diversification plans was also recognized. In addition, many representatives considered that the needs of the least advanced of the developing countries, both within and outside integration schemes, required special consideration with a view to achieving a more diversified economic structure. The representatives of the developing countries considered that the diversification of the economies of the developing countries required, among other international measures, that access to the markets of developed market economy countries should be progressively liberalized for commodities exported from developing countries, especially for processed commodities. These representatives were also of the opinion that the socialist countries should increase their imports of these commodities. Readjustments in the economic policies of developed countries could contribute to the success of these diversification programmes.

18. The Committee generally accepted the four broad patterns of diversification of the economies of developing countries identified by the Advisory Committee (TD/B/C.1/25, paragraph 31). It recognized that there was a separate but related aspect to diversification which was that of the improvement of productivity in agriculture, especially as regards commodities exposed to competition from synthetic materials and hence to the risk of declining prices. The importance of diversification through increased food production was stressed, although it was recognized that balanced progress was urgently required in relation to all forms of diversification. For economies heavily dependent on a limited range of commodities with unfavourable export prospects, diversification required a broadening of the pattern of production in favour of commodities with a more dynamic growth potential. In this connexion, there was general agreement that projections of the demand for and supply of individual commodities, if used with caution, would provide a useful indication as to the desirable pattern of production towards which diversification efforts should be directed. It was stressed that diversification programmes might have international repercussions and that, if possible, production should be internationally co-ordinated. The representatives of the developing countries were also of the view that such co-ordination should apply both to natural and synthetic products. In the absence of such co-ordination, isolated efforts by individual countries to diversify their production might aggravate a global surplus problem for a particular commodity or, if diversification took the form of a shift to certain alternative crops, it could upset the market balance of these commodities. The representatives who participated in the discussion were in general

agreement that for many developing countries the diversification of exports to avoid their heavy dependence on primary commodities in crude form and their replacement by processed commodities and manufactured goods offered the greatest promise in the long-term.

19. The Committee discussed the role of diversification programmes in the context of international commodity policy, mainly in relation to the possible avenues of inter-governmental action suggested by the secretariat (TD/B/C.1/36, paragraphs 51 et seq.). The Committee agreed that a list should be prepared of primary commodities for which diversification programmes involving control over increases in production and/or improvements in produciivity were urgently required. It nevertheless recognized that such a list should not be exhaustive, but flexible. It was proposed that the secretariat provide further documentation for the second Conference on the diversification problems of a limited number of commodities facing special problems of structural over-supply or serious competition from synthetics and substitutes. In particular, the secretariat should draw the attention of the Conference to areas requiring further detailed study, including the possibilities of co-ordinating production growth and productivity improvements on the one hand, and of latneraative economic employment of resources on the other, taking into account the special needs and characteristics of the individual countries producing the particular commodities concerned.

20. The Committee acknowledged that external financial assistance was important for the fulfilment of diversification programmes as a supplement to the efforts undertaken by the developing countries. It was generally agreed that external finance for diversification programmes forming an integral part of the development plans of individual countries, or for regional diversification schemes, should essentially be made available from the usual sources of development finance including governments and international financial institutions. However, it was also felt that, in appropriate instances, financing of diversification programmes would fall within the framework of international commodity policies. The Committee endorsed the view that, in the preparation of commodity agreements, consideration should be given to the desirability of making special provision, where appropriate, for the financing of diversification schemes. It was recognized that the success of international agreements for commodities in surplus would largely depend on the success of exporting countries in controlling supplies by

diversification. With regard to diversification mention was also made of the action taken within the international coffee organization to establish a diversification fund and it was hoped that the action undertaken would soon prove successful.

21. The Committee was also in general agreement that the special needs of individual developing countries exporting commodities which suffered from serious market difficulties, and for which no international commodity agreement existed, should be brought to the attention of governments and agencies providing development finance. Representatives of developing countries, in addition, thought that further consideration should be given to the usefulness of a diversification fund (or funds) for particular commodities for which no international agreement existed, and that - where appropriate - preferential access to the usual sources of external development financing should be made available for diversification programmes for such commodities. Representatives of developed countries stated that they could not agree to the need for a fund (or funds) for commodities not covered by international commodity agreements. In their view, such a fund (or funds) would immobilize considerable financial resources which could be more judiciously employed elsewhere. Moreover, they felt that diversification programmes for such commodities should be incorporated in the economic development plans of the producing countries concerned. Their financing would be considered on a country-by-country basis and recourse might be had to bilateral or multilateral aid.

(iii) Basic principles and guidelines for pricing policy designed to [maximize] receipts from exports of primary commodities

22. The Committee held a discussion on this sub-item, in the course of which a number of substantive and procedural issues were raised. The Committee regretted that at its first session the Permanent Sub-Committee on Commodities had been unable to reach agreement on the basic principles and guidelines for pricing policy for primary commodities which had been discussed in connexion with the international organization of commodity trade. Although it was recognized that the subject was most important and required full consideration, there was general agreement that, in view of the complexities of the issues involved, the discussion should not be pursued in detail at the present time. Instead, the Committee suggested that the Advisory Committee should consider the basic principles and guidelines for pricing policy of primary commodities at its second session. It requested therefore that the relevant documentation submitted to the Permanent Sub-Committee should be submitted to the Advisory Committee at its forthcoming session. It further requested that the report of the Advisory Committee should be circulated in time for the fifth session of the Trade and Development Board, in order that Governments would have an opportunity to consider the subject again before the second Conference.

Representatives of developing countries stressed the need to clarify and, if possible, reach a broader measure of agreement on the fundamental principles of price policy. They expressed the hope that the work done in this connexion by the Permanent Sub-Committee, as set out in its report (TD/B/C.1/21, annex I, paragraphs 26-34), would be resumed and lead to an agreement.